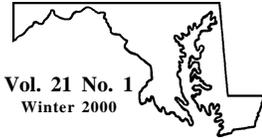


Maryland



Maryland tax information ● WILLIAM DONALD SCHAEFER ● State Comptroller

Income tax filing season preview

Taxpayers and tax preparers will see some big changes on Maryland state and local income tax forms during the upcoming income tax filing season. These changes are summarized below and will be covered in greater detail in the joint fed/state tax newsletter published in January.

Form 503 is back!

Thanks to legislation that simplified the local income tax calculation, taxpayers will be able to use the popular short form, Form 503, once again this year.

Form 502 has changed

Form 502 has been changed to reflect the new calculation for local income tax. Under the new calculation, local rates are a percentage of taxable income. Previously, they were a percentage of state tax liability.

Inside

- Comptroller Schaefer to aid Maryland's wine industry
- Mail order alcohol shipments now a felony
- Expanded tax credits help businesses, individuals

Taxpayers must enter Social Security numbers

Because of taxpayers' security concerns, tax booklet labels will not contain taxpayers' Social Security numbers. Instead, taxpayers must

enter these numbers in the space provided on the form, whether or not they use the label.

Lack of a Social Security number will slow return processing and refund checks.

Please see preview on page 3

Comptroller's Comments

Good economic outlook for Maryland

As Chairman of the Maryland Board of Revenue Estimates, I am pleased to report that our state's economy is expected to remain strong for the foreseeable future. This was the conclusion reached at a November 9 meeting of the Board's Business Advisory Panel, which includes representatives from businesses and industries across Maryland, including the financial services, construction, health services, and retail sectors.

I take the panel members' opinions very seriously, and I'm happy to report that they are uniformly optimistic about Maryland's near-term prospects. The only deterrent to faster growth results from the good news of historically low unemployment. Many sectors of the economy have simply run out of people to employ.

The region around Baltimore-Washington International Airport is probably Maryland's biggest economic success story. Supported by the airport's presence, the area's transpor-

tation-related industries, high-tech industries, business services, and retail sectors are growing and creating good jobs. Southwest Airlines has added a pilot and crew base to BWIA, creating 1,200 jobs. And the new Arundel Mills mall will generate 3,500 retail jobs, as well as many construction jobs. Additional office space, the potential redevelopment of industrial space, and very high hotel occupancy rates ensure this area will continue to be a driving force in Maryland's economy.

This once-in-a-generation economic growth gives state government a unique opportunity to fund programs that help people today, prepare for tomorrow's needs, and provide a solid economic foundation for the next century. We can't afford to waste this opportunity, and as Comptroller, I will work to ensure that we meet those goals.

William Donald Schaefer
Comptroller of Maryland

Comptroller Schaefer helps Montgomery County implement earned income credit

Thanks to a cooperative effort of the Comptroller's Office and Montgomery County officials, 12,000 low-income families will receive checks averaging \$176 this January. The payments represent the start of the first local earned income tax credit program in the nation.

In October, the Montgomery County council approved a local earned income tax credit as part of an effort to help poor working families living in the state's wealthiest subdivision. Under the program, Montgomery County families eligible for the state's earned income tax credit will automatically get a second check issued by the Comptroller's Office but financed by Montgomery County. The county will also pay administrative costs.

"I was happy to work with County Executive Doug Duncan to make this program possible," said Comptroller William Donald Schaefer. "It's a great way to help hard-working families make ends meet."

"It's a great way to help hard-working families make ends meet."

William Donald Schaefer
Comptroller

The January payments will be for tax year 1998 and will benefit families with an annual household income of less than \$17,000. Over the next two years, the average refund will grow to \$332 and apply to 13,600 Montgomery families

earning less than \$19,000 a year. Only households with children qualify for the credit.

Maryland is one of eight states to provide a state earned income credit to low-income families. Some families without children are eligible for the Maryland earned income credit.

Maryland's tax CDs and forms are in the mail

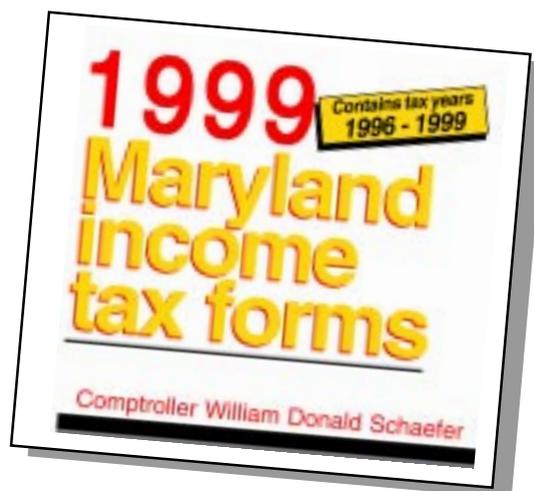
Tax preparers who ordered 1999 tax forms and instructions on CD ROM or paper will see them start to arrive beginning the week of **December 13**. This year's free CD will contain Maryland income tax forms for tax years 1999, 1998, 1997, and 1996. Other recent and upcoming mailings include:

- **New income tax withholding guides.**

State and local income tax withholding guides mailed to employers on November 19 reflect the effect of the Accelerated Tax Reduction Act.

- **Employer withholding coupon books.**

Mailed December 20.



- **Individual estimated coupon books.**

To be mailed January 15.

- **Maryland personal income tax booklets.**

To be mailed between Christmas and New Year's Day.

Comptroller promotes regulatory relief for Maryland wine industry

Will have legislation introduced in the 2000 Maryland General Assembly

In the upcoming session of the Maryland General Assembly, Comptroller William Donald Schaefer will propose legislation to remove regulatory barriers that hamper the development and promotion of Maryland's wine industry.

The legislation outlined by the Comptroller would allow wineries to do three things they are not currently allowed to do:

- Sell glasses of wine on their licensed winery premises.
- Showcase and sell their products at indoor or outdoor non-winery events such as farmers' markets and community festivals; and

- Bring wine onto licensed premises, such as restaurants and hotels, with the permission of the license holder, for legitimate promotional activities.

"This regulatory relief will help Maryland's wineries promote their products as well as boosting the state's agriculture and tourism industries," said Comptroller Schaefer.

The Association of Maryland Wineries and the Maryland Grape Growers Association support the Comptroller's initiatives.

The Comptroller's website at www.marylandtaxes.com features a page with links to information about the state's wineries and about the proposed regulatory relief.

Filing season preview

Continued from page 1

Form 502OL eliminated

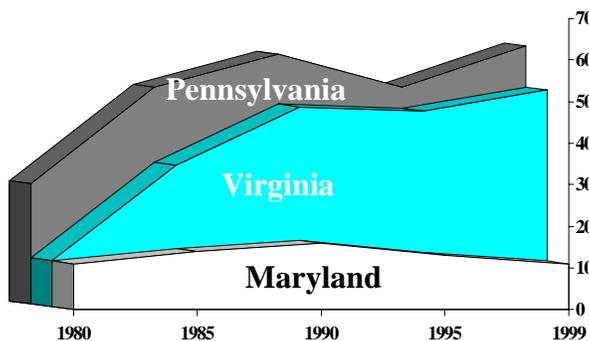
Form 502OL, Personal Income Tax Declaration for Online P.C. Filing, has been eliminated. Taxpayers using a personal computer to file a Maryland return will use a Personal Identification Number (PIN) as an electronic signature, providing truly paperless filing for most online filers. P.C. filers with a balance due will continue to use Form 502PV to make payments.

Extensions are easy

Again this year, it's easy for taxpayers who don't owe additional Maryland tax to get an extension of time to file their Maryland return. All they need to do is file a return for a federal extension. Taxpayers who don't have tax due but didn't file a federal extension can file by telephone (410-260-7829) or on our website at www.marylandtaxes.com.

Wine Industry Growth

Numbers of Wineries



Source: American Vintners Association, 1999

Thanks for your help

as we build our e-mail address book

If you have e-mail and Internet access that would allow you to use an electronic version of *ReveNews* please let us know.

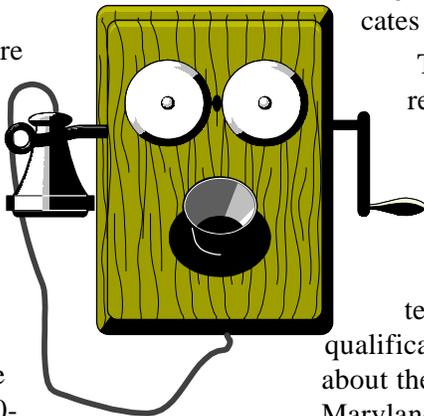
Send us your e-mail address to:
SchaeferService@comp.state.md.us
 so we can build a mailing list for future electronic publications.

Briefly noted

New call system speeds response

Business taxpayers are getting their phone calls and tax questions answered faster, thanks to a new call management system implemented in the Baltimore taxpayer service office in. Under the call management system, calls are automatically routed to the next available taxpayer service representative.

Sales and use tax questions should be directed to 410-767-1300, while businesses needing help with business tax registration should call 410-767-1313. Maryland callers outside the Baltimore metro area may call 1-800-492-1751 for both. The call management system also provides information on business withholding tax accounts.



Tax clearance certificates eliminated

Because of a change in Maryland law, the Comptroller's Office no longer issues tax clearance certificates effective October 1, 1999.

The change repeals the requirement that domestic and foreign corporations certify they have paid certain taxes and other obligations before filing articles of dissolution or terminating registrations or qualifications. If you have questions about the law, please contact the Maryland State Department of Assessments and Taxation at 410-767-1184; fax at 410-333-5873; or online at www.dat.state.md.us.

Compliance notices to be mailed in January

Starting in January 2000, the Comptroller's Office will mail notices to taxpayers who filed a 1998 federal income tax return with a Maryland address but didn't file a Maryland return for the same year.

The notices ask taxpayers to explain why they didn't file the Maryland return. There are many valid reasons why they might not have filed a Maryland return for 1998, but the Comptroller's Office has no way of knowing unless the taxpayers tell us.

When taxpayers do not respond to these notices, the Comptroller's Office estimates and assesses tax due based on available information. Questions about these notices should be directed to 410-767-1966 in the Baltimore area or toll-free 1-800-648-9638 from elsewhere.

Stop-smoking products tax exempt

The sale of products, both over-the-counter and prescription, to help in nicotine withdrawal, qualify under the definition of medicine and are, therefore, exempt from the sales and use tax. If you have questions about how to apply this exemption, call the Compliance Division at 410-767-1500 in the Baltimore area or toll-free elsewhere at 1-800-492-1752.

State closes fiscal year 1999 in the black

Maryland closed fiscal year 1999 with an undesignated General Fund balance of \$320 million.

"These excess revenues came primarily from state income taxes, sales and use taxes, and interest earnings that exceeded estimates," said State Comptroller William Donald Schaefer. "Even with a reduction in the state income tax rate, personal income tax revenues rose \$140 million to nearly \$4.3 billion, thanks to strong job and wage boosts and increases in values of stock options and higher capital gains."

Sales and use tax revenue totaled \$2.3 billion, 6.4 percent above last year and 1.7 percent above estimates. The growth was fueled

Please see Briefly Noted on next page

Delinquent tax interest rate set for 2000

For the calendar year 2000, the interest rate for delinquent taxes will be 13 percent, the same rate as in 1999 and the lowest rate allowed by law.

The annual rate of interest paid on refunds for 2000, where interest is required by law to be paid, will be 7 percent, a decrease from the 8 percent rate for 1999.

Briefly Noted from previous page

by rising consumer spending, prompted in part by low interest rates and record levels of mortgage refinancing.

State law requires the governor to appropriate all surplus funds that exceed \$10 million into the Revenue Stabilization Account, also known as the state's "Rainy Day" fund.

Short-term vehicle rentals are now exempt from titling tax

Effective July 1, 1999, the purchase of a rental vehicle (as defined in Section 11-718 of the Transportation Article) is exempt from the titling tax, and the credit against sales and use tax liability for titling tax paid is therefore eliminated.

Short-term vehicle rental businesses may continue to claim the credit on their sales and use tax reports for titling tax paid for qualifying vehicles purchased before July 1, 1999.

You can claim these credits by filing form COT/ST106 (available by calling the Taxpayer Service Section at 410-767-1300 in the Baltimore area or 1-800-492-1751 from elsewhere in Maryland) within three years from the date the titling tax was paid.

Note: this change does not affect the 11 1/2 percent tax rate for car rentals.



Cigarette vending machines - new warning labels

All cigarette vending machines in Maryland now bear redesigned and updated age warning labels issued by the Comptroller's Office.

The old labels should be removed and destroyed. Cigarette vending machines must also be identified with the licensee's name, address, and telephone number.

Violation of this law will result in the vending machine being sealed, and repeat violations can result in suspension or revocation of a cigarette license.

If you have questions or need more warning labels, please contact the Alcohol & Tobacco Tax Unit at 410-260-7314 or visit its website at att@comp.state.md.us.

Former comptroller Robert Swann retires

Deputy Comptroller Robert L. Swann retired on October 1, 1999, after a 39-year state career that included service as Maryland's 31st comptroller.

Robert "Bobby" Swann was appointed state comptroller by Governor Parris Glendening in July 1998 and served until Comptroller Schaefer took office on January 25, 1999, when Mr. Swann resumed his previous post of deputy comptroller.

In May 1999, he received the prestigious Charles "Mac" Mathias, Jr. award from the Maryland Chapter of the American Society for Public Administration in recognition of his service as state comptroller.

Maryland earns 19th consecutive certificate of excellence

Maryland has been recognized for top performance in government financial reporting from the Government Finance Officers Association of the United States and Canada for the 19th consecutive year.



The GFOA awarded the Certificate of Achievement for Excellence in Financial Reporting to Maryland's fiscal year 1998 Comprehensive Annual Financial Report, prepared by the State Comptroller's Office.

According to GFOA, the certificate is "the highest form of recognition for state and local governments and demonstrates a constructive spirit of full disclosure."

Maryland's fiscal year 1998 Comprehensive Annual Financial Report is available on the comptroller's website at www.marylandtaxes.com.

The fiscal year 1999 report will be available online in January.

ReveNews....

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New, expanded tax credits benefit businesses, individuals

Taxpayers will find three new state and local tax credits and one expanded credit on this year's Form 500 CR.

Farmers may claim a credit of up to \$4,500 for the additional cost of commercial fertilizer needed to convert agricultural production to a nutrient management program.

Employers who provide long-term care insurance as part of an employee benefit package may claim a credit of up to \$5,000.

Employers may claim a credit for a percentage of wages paid to students employed as part of a work-based learning program. The credit claimed may not exceed \$1,500 per qualifying employee.

The existing heritage structure rehabilitation tax credit has been modified to allow individuals or businesses to receive a Historic Rehabilitation Mortgage Credit Certificate in lieu of the tax credit. Taxpayers can use the mortgage credit certificate to obtain a lower interest rate or a lower purchase price on the property. Financial institutions receiving the credit may claim a corporate income tax credit for the amount of the certificate.

For more information about these and other income tax credits, contact Lewis Koenig at lkoenig@comp.state.md.us or 410-260-7980 in Central Maryland and 1-800-MD TAXES from elsewhere.

Mail order alcohol shipments are now a felony

Law applies to shippers, not consumers

A change in Maryland law making it a felony to ship alcohol directly to consumers in the state takes aim at a growing business that robs states of tax revenue and gives underage drinkers easy access to alcohol. The law, which went into effect October 1, increased the penalties for shipping alcoholic beverages directly to anyone within Maryland who doesn't hold the proper license.

Comptroller William Donald Schaefer stressed that the law does not target consumers. "Maryland consumers need to be aware that it's illegal to buy alcoholic beverages over the Internet or through catalogues, but we will continue to direct our enforcement efforts at out-of-state shippers," said Comptroller William Donald Schaefer. "In most cases, they know that shipping alcohol products into Maryland is illegal yet continue to flaunt the law."

Previously mail order and Internet shipments of alcohol were

treated as misdemeanors and were more difficult to enforce. A conviction under the new law carries a \$1,000 fine or imprisonment of two years or both.

The mail order alcohol business,

"It's very easy for kids with a credit card and a computer to get alcohol delivered to their homes. That's one reason I strongly endorsed the new law."

William Donald Schaefer
Comptroller

believed to generate \$1 billion a year nationally, results in a potential revenue loss to the states of between two and four hundred million dollars a year. Additionally, mail order and Internet sales create unfair competition for Maryland businesses and

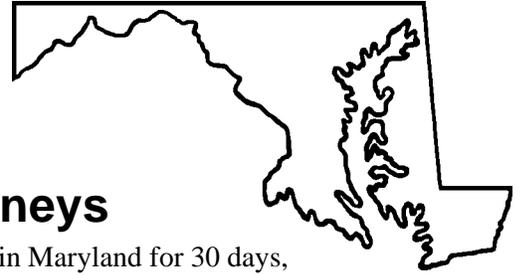
bypass the state's regulatory control of alcohol distribution.

The Comptroller also pointed to the danger of underage drinking as a reason for stepped-up enforcement. "It's very easy for kids with a credit card and a computer to get alcohol delivered to their homes. That's one reason I strongly endorsed the new law."

Under Maryland law, only licensed establishments may sell beer, wine, or distilled spirits to retail customers, and the distribution of these beverages is controlled as it flows from the manufacturing to the wholesale and retail levels.

The Comptroller's Office offers consumers a free brochure explaining Maryland's treatment of mail order and Internet alcohol sales (see *Focus on...* on page 8).

The courts decide. .



Income tax

Court of Appeals admonishes two attorneys

The Court of Appeals of Maryland recently issued orders in two cases filed against Maryland attorneys by the Attorney Grievance Commission of Maryland as a result of a complaint filed by the Comptroller's Office.

In both cases, the attorneys had failed to pay employer withholding taxes. In the case filed against Edwin Shapiro, the courts suspended Mr. Shapiro from the

practice of law in Maryland for 30 days, effective November 29, 1999. In the second case, the court reprimanded Frances C. Gambo for her failure to file withholding returns and pay the tax when due.

The Comptroller's Office initiated these actions in cooperation with the Attorney Grievance Commission of Maryland.

Sales Tax

NC Retailer Must Collect Maryland Sales Tax

Judge Ronald A. Silkworth of the Anne Arundel County Circuit court has denied Furnitureland South, Inc.'s request for a stay of an order that it collect Maryland sales taxes.

On August 13, 1999, Judge Silkworth ruled in favor of the Comptroller's office in its lawsuit against the North Carolina based furniture retailer and its preferred carrier, Royal Transport, Inc. (see *ReveNews* Vol. 20, No. 4, Autumn 1999). The ruling recognized that Furnitureland South has a physical presence in Maryland and therefore must collect taxes from Maryland consumers. After that ruling, Furnitureland South filed an appeal that Judge Silkworth observed may take two

to three years to complete.

In the meantime, Furnitureland filed a Motion to Stay Enforcement of the order, which would mean that, while it waited for the appeal to be decided, it would not have to charge sales tax to its customers in Maryland. Judge Silkworth denied their motion, noting he was "skeptical that the defendants (Furnitureland South, Inc. and Royal Transport, Inc.) have a strong likelihood of success on the merits of their appeal" and further noting that although they "have described a litany of hardship that they will incur if the Order is not stayed, they have failed to introduce any evidence in support of their assertions."

Comptroller continues cigarette smuggling crackdown

Comptroller's Office field enforcement agents arrested two cigarette smugglers in separate incidents on November 20 and charged them with unlawful possession and transportation of untaxed cigarettes. The busts bring to 16 the number arrested since Maryland's cigarette tax was raised from 36 to 66 cents per pack on July 1, 1999.

The agents pulled over Budagou Gennadiy, 36, of Norfolk, Virginia, Saturday at 5:00 a.m. on Route 113 near Route 50 in Wicomico County and found 8,100 packs of untaxed cigarettes valued at \$24,948 in his van. Agents seized the van and charged

Gennadiy with unlawful possession of untaxed cigarettes and transportation of untaxed cigarettes.

About 12 hours later, agents pulled over a van driven by Mohamad Masum Rahman, 36, of Astoria, New York, at Route 113 and Franklin Street in Berlin and found in his van 7,340 packs of unstamped cigarettes valued at \$22,607. The agents seized the van, arrested Rahman, and charged him with unlawful possession and transportation of untaxed cigarettes.

If found guilty, Rahman and Gennadiy face a possible one-year sentence and/or a \$1,000 fine for

possession of untaxed cigarette and a possible two-year sentence and/or a \$50 fine per carton for transporting untaxed cigarettes.

"Anyone who is thinking about getting into the cigarette smuggling business should be aware that our agents are working around the clock and around the state to track them down," said Comptroller William Donald Schaefer.

Since July, the Comptroller's enforcement agents have confiscated 78,624 packs of unstamped cigarettes valued at \$242,161 representing a tax loss to Maryland of \$51,891.

Focus on A Maryland tax tip -

Mail order & Internet sales of alcoholic beverages are illegal

It can come from the popular wine or beer clubs you may have seen advertised or from mail order catalogues. It can be a vintage Cabernet a Maryland resident buys and has shipped home after touring an out-of-state winery. In recent years, it's just as likely to be alcohol purchased the high-tech way, over the Internet.

In each of those cases, it's mail order alcohol, and it's illegal in

Maryland. Many consumers don't know that buying mail order alcohol is against the law, but there are good reasons why Maryland doesn't permit these shipments. Most states have similar laws, and the growth in mail order sales is a concern to regulators and tax administrators nationwide.

The tax tip, *Mail order & Internet sales of alcoholic beverages are illegal*, describes the problems with mail order alcohol

sales and describes the options available to consumers looking for hard-to-find products.

You can download a copy of this tax tip from the Comptroller's website at www.marylandtaxes.com. The tip is also available at any of our 20 taxpayer services offices or by calling the taxpayer service section at 410-260-7980 in central Maryland or 1-800-MD TAXES toll-free from elsewhere.

Filing season preview - See front page
